

ORIGINAL OPEN MEETING

MEMORANDUM
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2006 DEC -5 P 12:47

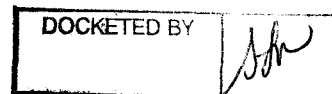
Arizona Corporation Commission

DOCKETED

DEC -5 2006

TO: THE COMMISSION
AZ CORP COMMISSION
FROM: Utilities Division DOCUMENT CONTROL

DATE: December 5, 2006



RE: IN THE MATTER OF LAS QUINTAS SERENAS WATER COMPANY'S COMPLIANCE FILING AND REQUEST FOR APPROVAL OF PROPOSED SURCHARGE (DOCKET NOS. W-01583A-04-0178, W-01583A-05-0326 AND W-01583A-05-0340)

Introduction

On November 7, 2006, pursuant to Decision No. 68718, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge as shown on Table A. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

Background

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an arsenic remedial surcharge mechanism ("ARSM").¹ Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ARSM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

Staff Adjustments

Decision No. 68718 stated that,

¹ The Decision uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." This memorandum uses the latter term hereafter.

THE COMMISSION

December 5, 2006

Page 2

“ . . . LQS be required to calculate its proposed surcharge tariff using . . . the same methodology that Staff used to determine the estimated surcharge amount . . .” (emphasis added).

Staff's methodology allowed only the principal and interest on the authorized loan amount and the related income taxes to be recovered through the ARSM. In addition to those authorized costs, the Company's proposed surcharge includes \$38,983 for an annual Water Infrastructure Finance Authority Debt Reserve payment and the incremental income taxes thereon. Since a provision for these additional items was not authorized in Decision No. 68718, Staff removed the \$38,983 from the surcharge revenue requirement used to calculate the arsenic remedial surcharge.

Staff also determined that the Company improperly calculated the gross revenue conversion factor used in the ARSM. The Company's calculation does not include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic loan. This omission understates the Company's gross revenue conversion factor, and consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120 gross revenue conversion factor reflected in Staff's ARSM testimony that was the basis of the ARSM adopted by the Commission.

Staff recommends approval of Staff's recommended arsenic surcharges as shown on Table A.

Staff further recommends that the Company file a tariff consistent with Table A explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of the decision resulting from this proceeding.

Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.



Ernest G. Johnson
Director
Utilities Division

EGJ:CSB:lhmvJMA

Originator: Crystal Brown

TABLE A

Arsenic Remedial Monthly Surcharge Per Meter

	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8 Inch x 3/4 Inch Meter	\$ 13.59	\$ 11.37
3/4 Inch Meter	\$ 20.39	\$ 17.05
1 Inch Meter	\$ 33.98	\$ 28.42
1 1/2 Meter	\$ 67.96	\$ 56.84
2 Inch Meter	\$108.74	\$ 90.94
3 Inch Meter	None Proposed	\$170.52
4 Inch Meter	\$339.82	\$284.20
6 Inch Meter	None Proposed	\$568.40
Standpipe	\$ 13.59	\$ 11.37

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JEFF HATCH-MILLER
 Chairman
3 WILLIAM A. MUNDELL
 Commissioner
4 MIKE GLEASON
 Commissioner
5 KRISTIN K. MAYES
 Commissioner
6 BARRY WONG
 Commissioner

7
8 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01583A-04-0178
9 OF LAS QUINTAS SERENAS WATER)
10 COMPANY FOR A RATE INCREASE)

11 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01583A-05-0326
12 OF LAS QUINTAS SERENAS WATER)
13 COMPANY FOR AUTHORITY TO INCUR)
14 LONG-TERM INDEBTEDNESS TO)
15 FINANCE WATER SYSTEM)
16 IMPROVEMENTS AND ASSURE)
17 COMPLIANCE WITH NEW ARSENIC)
18 RULES)

19 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01583A-05-0340
20 OF LAS QUINTAS SERENAS WATER)
21 COMPANY FOR AN OPINION AND)
22 ORDER TO (i) RE-OPEN THE RECORD IN)
23 A RECENT RATE CASE SO AS TO)

24 CONSIDER EVIDENCE IN SUPPORT OF)
25 AN ARSENIC COST RECOVERY)
26 MECHANISM, AND (ii) MODIFY RATE)
27 CASE DECISION IN ORDER TO ADD AN)
28 ARSENIC COST RECOVERY)
29 MECHANISM AS AN AUTHORIZED RATE)
30 AND CHARGE)

31 Open Meeting
32 December 19 and 20, 2006
33 Phoenix, Arizona

34 BY THE COMMISSION:

35 ...

36 ...

DECISION NO. _____

ORDER

**COMPLIANCE FILING AND
REQUEST FOR APPROVAL OF
PROPOSED SURCHARGE**

Introduction

Pursuant to Decision No. 68658, dated November 7, 2006, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge. The Company proposes monthly surcharges that vary by meter size. The Company's proposed surcharges would increase the average residential customer's bill (5/8-inch x 3/4-inch meter) by approximately \$13.59 (or 58.86 percent) from \$23.20 to \$36.79. Staff recommends surcharges that conform with the Arsenic Remedial Surcharge Mechanism ("ARSM")¹ authorized by Decision No. 68718.² Staff's recommended surcharges would increase the average residential customer's bill by approximately \$11.37 (or 49.01 percent) from \$23.20 to \$34.57.

Background

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an ARSM. Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ASRM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

Staff Adjustments

Staff recommends two adjustments to the Company's ARSM calculations. Staff noted that Decision No. 68718 stated that,

...

¹ Decision No. 68718 uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." The latter term is in use herein.

² Dated June 1, 2006.

1 “ . . . LQS be required to calculate its proposed surcharge tariff using . . .
2 the same methodology that Staff used to determine the estimated surcharge
3 amount . . .” (emphasis added).

4 Staff’s methodology allowed only the principal and interest on the authorized loan amount
5 and the related income taxes to be recovered through the ASRM. Staff noted that in addition to
6 those authorized costs, the Company’s proposed surcharge includes \$38,983 for the annual Water
7 Infrastructure Financing Authority (“WIFA”) Debt Reserve payment and incremental income taxes
8 thereon. Since a provision for these additional items was not authorized in Decision No. 68718,
9 Staff removed the \$38,983 from the surcharge revenue requirement to calculate the arsenic
10 remedial surcharge.

11 Staff also determined that the Company improperly calculated the gross revenue
12 conversion factor used in the ARSM. According to Staff, the Company’s calculation does not
13 include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic
14 loan. This omission understates the Company’s gross revenue conversion factor, and
15 consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120
16 gross revenue conversion factor reflected in Staff’s ARSM testimony that was the basis of the
17 ARSM adopted by the Commission.

18 Staff recommends approval of Staff’s recommended arsenic surcharges as shown on
19 Table A.

20 Staff further recommends that the Company file a tariff consistent with Table A explaining
21 the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of
22 the decision resulting from this proceeding.

23 Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial
24 Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

25 We find that Staff’s adjustments and its recommendations are appropriate and should be
26 adopted.

27 ...

28 ...

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

2. The Company seeks an arsenic remedial surcharge tariff in this proceeding authorizing the monthly surcharges as shown on Table A to aid the Company in its efforts to comply with the Environmental Protection Agency's new arsenic maximum contaminant level of 10 ppb which became effective January 23, 2006.

3. Staff determined that the Company's surcharge calculation is not consistent with the authorized ARSM and recommends adjustments to calculate the surcharge as authorized.

4. Staff calculated surcharges to conform with the authorized ARSM.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of an arsenic surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for approval of an arsenic remedial surcharge tariff, as calculated by Staff.

ORDER

IT IS THEREFORE ORDERED that the application by Las Quintas for approval of an arsenic remedial surcharge to service the debt necessary to complete the arsenic treatment investment as recommended by Staff and shown on Table A is approved.

...

...

1 IT IS FURTHER ORDERED that the Company shall docket a tariff consistent the arsenic
2 remedial surcharge approved herein explaining the terms and conditions of the arsenic remedial
3 surcharge within 30 days of the effective date of this decision.

4 IT IS FURTHER ORDERED that Las Quintas shall notify its customers in a form
5 acceptable to Staff, of the arsenic remedial surcharge tariff approved herein within 30 days of the
6 effective date of this Decision.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 _____
CHAIRMAN

COMMISSIONER

12
13
14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15
16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
17 Director of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2006.

19
20
21 _____
BRIAN C. McNEIL
22 Executive Director

23
24 DISSENT: _____

25 DISSENT: _____

26 EGJ:CSB:lhmvJMA
27
28

1 SERVICE LIST FOR: Las Quintas Serenas Water Company
2 DOCKET NO. W-01583A-04-0178, et al.

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18 Mr. Christopher C. Kempley
19 Chief Counsel
20 Arizona Corporation Commission
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TABLE A

Arsenic Remedial Monthly Surcharge Per Meter

5/8 Inch x 3/4 Inch Meter	\$ 6.78
3/4 Inch Meter	\$ 10.17
1 Inch Meter	\$ 16.95
1 1/2 Meter	\$ 33.90
2 Inch Meter	\$ 54.24
3 Inch Meter	\$101.70
4 Inch Meter	\$169.50
6 Inch Meter	\$339.00